

Valley Funeral Home Co-operative Limited Business Plan

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Executive Summary

The Annapolis Valley Funeral Home Co-operative Limited was established in November of 1994 and until 2004 consisted of approximately 100 members who were looking for alternatives to costly funerals. In 2004, with funding through a Community Economic Development Investment Fund, the funeral home raised \$157,000 and built a funeral home before year end. With a full year of services in 2005, the business serves a market area from Meteghan to Halifax/Truro although its primary market is in the Annapolis Valley from Windsor to Middleton. With one full time and one part time Funeral Director/Embalmer and a part time office administrator the AVFHC can provide full service funerals in a superior environment.

As a not-for-profit and with a debilitating interest rate on long term debt, the AVFHC has decided to issue a second CEDIF in 2006 with a goal of \$150,000 in order to pay down this debt. The AVFHC has recently secured an interim \$40,000 operating line of credit from the Valley Credit Union.

With a growing death rate in Kings, Hants, and (especially) Annapolis Counties the AVFHC sees itself responding to another growing need of the baby boom generation. Pre-paid funerals and funeral insurance are also available to membership – which has grown to over 350. Projections suggest membership will grow to 500+ and funerals will more than double this year from 11 (2005) to 25 (projected 2006) and are expected to hit 60+ by 2010.

Introduction

The Annapolis Valley Funeral Home Co-operative Limited (AVFHC) was incorporated on March 30, 2000. AVFHC is a not-for-profit organization that can provide a dignified, quality service without a lot of the “brass and glass” which costs the client extra money.

This small valley co-operative was founded by a group of concerned citizens in November of 1994, who either through an experience of their own or from an experience of a friend, found that the survivors of a loved one were saddled with a large funeral burden that had not been in their day-to-day plans. This group visited funeral co-operatives in Musquodoboit and Prince Edward Island and slowly grew interest in the concept of a funeral co-operative. In 2000 with a change in chairperson and executive, specific planning began for the creation of a funeral facility owned and operated by the AVFHC. Between 2000 and 2003 a membership drive was conducted, the present property was purchased, plans for the facility were drawn up by an architect and the cost of building the facility was established. In 2003, with the assistance of the Nova Scotia Department of Economic Development, the AVFHC ran its first Community Economic Development Investment Fund offering and raised \$157,000 in order to commence construction. During that time a membership of slightly over 100 started to rise, to a present standing of over 350. In the spring of 2004 the AVFHC commenced construction and subsequently held an open house to the public in November of that same year. A full time Funeral Director/Embalmer was hired that time.

AVFHC has been operating since that time with the first funeral held in December of 2004. In 2005, eleven funerals or cremations were provided to Valley residents – 4 to members and 7 to non-members. With the assistance of a small business counselor with the Acadia Center for Small Business and Entrepreneurship, a marketing and client awareness campaign was launched in 2004 which included a survey of local residents regarding their thoughts and behaviors in relation to funeral planning. This survey was repeated again in 2005. Also in 2005, an insurance program was initiated through Familyside (Canada Purple Shield). As a result AVFHC now has \$255,000 in trust from this assigned insurance program, \$142,000 in prepaid funeral costs in trust through the Valley Credit Union, and has raised community awareness at the same time. In the first six months of 2006, services are already up to 12 (of a projected 25) and revenue is \$19,079 (of a projected \$43,291). Total revenues - which include service fees, caskets and urns – are up over \$8500 from the same 6 month time period in 2005.

With a business location centrally located in Coldbrook, near a hotel and other amenities, and just off Highway #101 members who live from Meteghan to Halifax/Truro may be served. Several policies that give the co-operative a competitive advantage over the competition are:

- Our pricing strategy
- A policy that allow work need by the co-operative to be exchanged for shares in the co-operative
- A policy that allow transfer of membership upon death through mention in a will
- A policy that offers a free basic funeral in the death of a member's child between the ages of 0 and 12
- Lower overhead costs that allow for savings to be passed on to the membership

Objectives

Short Term Objectives

1. to increase the number of services from 10 last year to 25 this year
2. to develop another CEDIF offering for 2006 that will raise between \$150,000 and \$275,000
3. to increase membership from 351 to 425
4. to increase the number of non-member services from 7 to 18

Medium Term Objectives

1. to pay the mortgage debt to Valley Credit Union of \$170,130
2. to pay the equipment loan of \$33,948 to Valley Credit Union
3. to purchase a used hearse, a body lifter and furnishings that will further enhance service offerings – at a cost of approximately \$38,500
4. to hire one part time funeral assistant
5. to increase membership from 425 to 500+
6. to increase the number of services from 25/year to 40/year
7. to increase our administrative assistant to a full time position

Long Term Objectives

1. to stabilize the number of services at approximately 60/year
2. to stabilize membership between 700 and 800
3. to operate the co-operative debt free

Trends

According to Statistics Canada there were 481, 353 and 289 deaths in Kings, Hants and Annapolis Counties in 2004. In fact, according to StatsCan, Annapolis County has one of the highest death rate per 1000 population at 13.2. With an aging population, a direct result of the maturing of the baby boom generation, deaths per 1000 population continue to rise by approximately 2% each census. Kings, Hants and Annapolis Counties are well positioned within the senior population representing between 14-16%.

With over 1100+ deaths occurring in our market area each year and a 2% increase every year for the next 10 (due to the baby boom bubble, demand will reach 1200 by 2010 and

peak at 1365 in 2016. With only 6 other businesses to respond to this need, AVFHC feels they are positioning themselves to capture 10% of that market in the longer term.

Further, according to the Cremation Association of North America, cremation is being chosen by one out of every four deaths occurring today. By 2010, this figure is expected to rise to two in every five deaths. The major factors that influence the choice of a cremation are:

- life expectancy is increasing
- migration to retirement locations is increasing
- regional differences are diminishing
- origins of immigrants are changing
- education levels are rising
- cremation is becoming more acceptable as a normal form of disposition
- family ties to tradition are lessening
- environmental considerations are becoming more important

In fact, Nova Scotia statistics tell us that one-third of all burial services in the province involve cremation.

Several of these factors also support an increase in pre-planning and pre-payment of funerals. With an increasingly product savvy consumer and longer life spans, more planning and “shopping around” is occurring. Just as the elderly do not want to be a burden to their family during their life, they also do not want to create undue burden after death. This sense of family obligation is one of the reasons that pre-planning, funeral insurance and pre-payment is taking a rise within the industry.

Funeral industry trends indicate an aging population profile but with lower mortality rates than were actuarially predicted for current dates. People are in fact, living longer lives and this trends works in reinforces the concept of pre-planning a funeral rather than reacting out of crisis. With the aging population base in the market area, this slows the process but simply defers the outcome.

Finally, the industry also cites price sensitivity/elasticity. Where traditionally families planned funerals through their church and considered only the funeral home used by their family, new consumers are conducting comparative pricing and choosing alternatives forgoing loyalty for savings as long as the quality service is still provided.

Competition

The following companies presently operate in our central market area from Windsor to Middleton and are well established with continuity with their home communities and providing traditional services that cost approximately 20% more than the services provided by AVFHC:

Lohnes-Beasley Funeral Home and Lindsay Windsor Funeral Home Ltd. - Windsor
H.C. Lindsay Funeral Home Ltd. – Wolfville, Kentville and Berwick, with a satellite in
New Ross

White Family Funeral Home – Kentville
Kaulbach Family Funeral Home Inc. – Bridgetown
Middleton Funeral Home Ltd. – Middleton

Serenity Crematorium and Funeral Specialist Inc. of Port Williams is, like the AVFHC,
younger than the others. Its pricing strategies are comparable, however they are unable to
provide the superior facilities offered at the AVFHC.

Customer Analysis

Our primary customer base is men and women over the age of 65 within Hants, Kings
and Annapolis Counties. The following two tables outline the population 65 and above
for the actual census in 2001 and the projected census figures for 2006. According to
Statistics Canada, this population is steadily growing by 2% annually. This will ensure a
growing demand for this product offering – increasingly in the area of cremation.

2001 Census Population by Sex and Age	Annapolis County, NS		Hants County, NS		Kings County, NS	
65 to 69 years	5,105	4%	1,510	4%	2,465	4%
70 to 74 years	4,235	3%	1,310	3%	1,955	3%
75 to 79 years	3,415	3%	960	2%	1,640	3%
80 to 84 years	2,465	2%	695	2%	1,145	2%
85 years and over	2,160	2%	585	1%	1,000	2%
65 years and over	17,380	14%	5,060	12%	8,205	14%

2006 Estimates and Projections Population by Sex and Age	Annapolis County, NS	Hants County, NS	Kings County, NS
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65 to 69 years	5,661	4%	1,724	4%	2,687	4%
70 to 74 years	4,589	4%	1,339	3%	2,282	4%
75 to 79 years	3,629	3%	1,093	3%	1,681	3%
80 to 84 years	2,545	2%	663	2%	1,284	2%
85 years and over	2,489	2%	668	2%	1,258	2%
65 years and over	18,913	15%	5,487	14%	9,192	16%

The following table outlines the present population base of each of the three counties and the death rate per 1000 population. The final row projects the average number of deaths based on this rate which should be realized this year.

County	Kings	Hants	Annapolis
Population	58,860	40,510	121,140
Death Rate/1000	7.9	8.4	13.2
Average Deaths Projected	464	320	959

Also as mentioned previously in the trends section, this population base is living longer which enables the time to pre-plan and pre-pay funeral services. An increased sense of responsibility regarding family burden with planning and financing is also important to this group. This group is also price sensitive having seen their parents and now family and friends struggle to pay for services upon the death of a loved one. Local investment is also seen as a positive activity and the thoughts of investing in a local company that will provide services directly to them is enticing.

Positioning Strategy

The product/service offering involves free pre-planning for members, conventional funerals, funerals with cremation, cremation only, on-site sales of Nelson Monuments, funeral insurance through Fortis Benefits Insurance Company (trademarked as Familyside) or in trust pre-payment through the Valley Credit Union.

Traditional funeral and cremation services are available through the AVFHC. The following is a list of some of the offerings:

- transfer of remains – place of death, cremation, church, place of burial
- paperwork including registration and death certificate

- embalming
- casket – rental or purchase
- service in church, chapel and/or graveside
- cremation box and urn
- cremation
- visitations
- deliver clergy honorarium, newspaper notices and monitor guest registration book
- other necessary arrangements requested by the family

Further, the following policies adopted by AVFHC enhance our product offering:

- shares transferable through a will at death
- share exchange for work needed by AVFHC (i.e. servicing of vehicles, finish carpentry work, marketing, rough landscaping and painting.
- free basic services for the child (aged 0-12) of a member
- lower overhead costs that allow the savings to be passed on to the membership

Pricing for a traditional funeral is approximately \$7,000 at other funeral homes. The AVFHC offers approximately 20% below this base level – approximately \$5600. Members receive a further discount of 20% bringing the fee for a basic funeral to \$4480. Founding members (the first 300 members who joined the co-operative) will receive a further 10% bringing the fees down to approximately \$4032 for a basic service. Cremation pricing for traditional local funeral homes is approximately 25% more than that of the AVFHC. Serenity Crematorium and Funeral Specialist Inc. offers a comparable pricing strategy to the AVFHC.

Promotion of AVFHC occurs through a marketing campaign designed by an AVFHC member and professional marketing consultant and includes a values survey, a paid newspaper advertising campaign, ongoing advertising on the local radio station, brochures distributed through the membership and in strategic locations such as doctors and professional offices throughout the valley, and ads in regional newspapers and local small town newsletters.

A direct mail campaign conducted by Fortis (Familyside) to designated areas from Kentville through Kingston and at designated times also puts the AVFHC brand in the hands of potential clientele. It also attracts business to AVFHC as a quality alternative to other funeral homes in the area.

Further, mention in the newspaper obituaries with every funeral offered provides appropriate market specific exposure. The real engine behind our marketing strategy is the many existing members, our board and our team of promoters involved in our Community Economic Development Investment Fund offerings. The CEDIF 90 day offering in 2004 and the one to be launched in 2006 provide a focused face-to-face promotion offering that also creates an opportunity for investment in a local company

while gaining a 30% tax incentive. This offering also often attracts local media and this exposure further enhances our name recognition.

Our business location was picked for its centrality to our market area, it's proximity to Highway #101, a local hotel and other amenities in the Coldbrook Village Park in one of the fastest growing communities in the Valley.

Operations Plan

With one full time and one part time licensed Funeral Director/Embalmer AVFHC is able to respond to funeral needs at any time. A part time office administrator ensures that records and administration is completed in a timely and efficient manner. During actual services two funeral assistants and four general helpers are available. All are volunteers. Presently one of these individuals is about to begin the Nova Scotia Community College Funeral Services Program.

Banking and financing is done through the Valley Credit Union.

Funeral insurance is sold through Fortis Benefits Insurance Company (trademarked under "Familyside") and operates by means of monthly mailouts to designated areas, the mailout contains our name as well as the agents name. When someone uses this service, the funeral is assigned to AVFHC and the insurer becomes a member.

Caskets/urns/supplies are purchased from a number of Maritime suppliers on an as needed to replenish inventory.

AVFHC owns the following buildings and equipment and uses it in the day to day operations:

- funeral home and maintenance building
- furnishings
- computer
- van/hearse
- embalming room equipment

Management Plan

Day-to-day operations are run by the full time licensed Funeral Director/Embalmer and the part time office administrator. The office administrator is also responsible for bookkeeping.

The four member Executive Committee holds conference calls as required (usually weekly) to approve new members and financial matters up to \$1000. The Executive also plans membership meetings and deals with the larger operations issues of the AVFHC.

The 10 member Board of Directors meets monthly to determine policy and direction of the co-operative. Any financial matters of more than \$1000 also need to come before the Board.

The accountant for the AVFHC is Bishops & Company Chartered Accountants Inc. of Wolfville (542-7665) – a reputable, recognized local accounting firm. Bishops conducts a review engagement report annually to ensure AVFHC is following Canadian generally accepted accounting standards. They also prepare annual reports for the CEDIF and Registry of Joint Stocks Companies.

The Lawyer representing the AVFHC is Douglas B. Raymond of Lower Canard (582-3372).

Financial Plan

In 2004/2005 AVFHC offered a CEDIF with a goal of raising \$120,000 to build a funeral facility. By February of 2005 \$157,000 had been raised surpassing the goal by over 30%. At the time of the first offering there was discussion as to a possible second offering within a year or two in order to pay off the long term debt.

With the first full year of operation with the new facility in 2005, AVFHC is pleased with the revenues of just under \$34,000. With Trust Investments of just over \$90,000 held in GICs by the Valley Credit Union, it is clear to see the efforts of the work done in 2004 and 2005. Shares (unlimited with a value of \$50 each) grew from 4216 at a value of \$210,800 in 2004 to 5701 at a value of \$285,050 in 2005.

As of July 1, 2006 total revenue for the first 6 months of 2006 is \$19,000 (in comparison to \$10,000 for the first 6 months of 2005). The AVFHC has already conducted 9 services year-to-date (in comparison to 6 in the first 6 months of last year). Services fees are up to over \$11,000 in comparison to \$7,000 in the first 6 months of 2005.

As of July 1, 2006 pre-paid funerals in trust through Valley Credit Union stand at \$140,561 and AVFHC assigned funerals through Familyside Insurance total \$257,667.

Several operating expenses have been more costly than forecast, namely:

Salaries and benefits at \$64,000 in 2005 – in order to respond to clientele it is necessary to have a licensed Funeral Director available at all times. This has resulted in not only the hiring of a full time director but also a part time director to respond when the full time director is not available. A part time office administrator has also been hired. Due to this staff contingent and the volume of work being conducted *Office Supplies* are also elevated.

Professional fees are also higher than expected due to a misunderstanding between the AVFHC and the CEDIF administration which require a 6 month financial statement. The Board was of the understanding that this statement has to be a review engagement report by the accountant. The AVFHC is transferring its bookkeeping into accounting software

(Simply Accounting) to enable us to generate this report next year through the office administrator thus saving an expenditure of approximately \$3500.

Year End Position

According to research, funeral co-operatives traditionally turn a profit between year three and five. Although it was not expected that the AVFHC would break even in 2005, the year ended in a deficit position of over (\$140,000). This short fall was the result of increased operating costs and overestimating the number of services that would provide revenue to support them.

Second offering of Community Economic Development Fund

Realizing that with a debt load of \$197,000, the AVFHC was paying out over \$850 per month in interest, the Board agreed to apply for another CEDIF in order to pay down this debt, reduce the debilitating interest charges and provide another opportunity for a directed marketing campaign to increase membership. Further, the Valley Credit Union has agreed to provide an interim \$40,000 operating line of credit.

Financial Projections

Actual and projected income and expenses for 2004-2010 inclusive are attached. As can be seen from these numbers, the AVFHC will begin to break even annually in 2008 – four years after opening its facility and offering its first funeral.

Notes to the Financial Projections:

- Figures for 2004 and 2005 are actual.
- Projected funerals for 2006 through 2010 offer a conservative estimate and show a move from traditional services to cremations as the number one service offerings.
- Pricing for funerals is projected at \$2795 for 2006 and slowly rises to \$3450 in the year 2010 to allow for increases in fees
- Expense recoveries rise proportionately with the number of services annually
- Caskets sales and rentals, urn sales, cremation fees and monument sales figures rise in proportion to the number of services in any given year
- Membership discount is included in the actual figures of 2004 and 2005, in the projections from 2006 onward they are represented by a 10% across all revenue
- Advertising and donations remains at \$5000 except in the year of offering a CEDIF in which it almost doubles
- Membership expenses relate to the steady growth of members over the next few years but is considerably less than 2005 as a different ratio is now being offered
- Cremation fees relate to the number of cremations projected annually
- Dues are expected to remain the same annually
- Insurance rises slightly each year to keep pace with rising costs
- Interest and bank charges take a drop in 2007 after long term debt is paid off as does the interest on that debt
- Professional fees also drop considerably in 2006 due to the fact that the AVFHC can now offer its own 6 month financial statements rather than paying the accounting firm to do this
- Salaries and benefits will rise by approximately \$20,000 in 2006 as our office administrator will go to full time. Salaries rise again in 2008 when a part time funeral assistant is hired
- Vehicle expenses rise approximately 50% in 2007 with the addition of a hearse
- All other costs simply reflect present day costs with slight increases to keep up with rising costs